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THE DIRECTOR OF  
CENTRAL INTELLIGENCE

*Chono*

National Intelligence Council

27 February 1985

NOTE FOR: Mr. Roger Robinson  
National Security Council

FROM:   
Assistant National Intelligence  
Officer for Economics

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SUBJECT: Attached Paper on Japan

Attached per your request is a brief  
analysis of Tokyo's reaction to an end of  
the VRA on autos.



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## Japan: After the VRA

Tokyo expects the voluntary restraint agreement (VRA) on auto exports to the United States to expire on 31 March. The Ministry of International Trade and Industry (MITI) probably will establish a semiformal monitoring system because it fears an export surge would provoke US retaliation in all sectors.

- MITI officials consider controls on auto exports the most important safety valve in bilateral economic relations.
- Although the larger firms have stated they will be prudent in exporting, MITI cannot trust all auto manufacturers to police themselves. Smaller firms recognize that any new restraints would likely be based on market share; one or more of these companies could try to rapidly increase shipments in anticipation of a possible return of restraints.
- Politically powerful agricultural interests, the Japanese Chamber of Commerce, and Keidanren--the influential big business organization--all favor continuing restraints to reduce pressure from the United States in other sectors.

Tokyo probably will opt for a public role in monitoring exports, rather than letting it appear the restraints have truly been lifted while still holding down shipments through informal administrative guidance.

- The Japanese do not want to allow Washington to use lifting the VRA as a bargaining chip in negotiations on the four areas discussed at the January Summit. Despite Washington's position that free auto trade can be restored, Tokyo will cite recent press statements by Congressmen and other officials as evidence that Washington really does not believe that automobile trade should be completely free.
- Aside from its position as the negotiator for restraint agreements, MITI has little influence over the auto industry and probably could not guarantee compliance using nonpublic, administrative guidance only.
- Tokyo is concerned that without official involvement in restraints, US auto dealers--unable to get all the cars they want to sell--might sue Japanese manufacturers under US antitrust laws for forming an illegal export cartel.

Recent press reports indicate MITI is leaning toward a "weather forecast" system under which the automobile manufacturers association would submit monthly export figures to

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MITI. MITI is already using this system to monitor auto exports to Canada and the EC. MITI has the right to control exports under the Foreign Exchange and Export Control Law, but is unlikely to actually invoke the law. Rather, it holds the law in reserve as a threat to the industry.

- MITI officials probably have not decided what the appropriate level of exports should be. They will probably choose between a 10 and 20 percent increase from the present 1.85 million units, and will allot larger market shares to the smaller firms.
- MITI, no doubt, would prefer that Washington help Tokyo determine a proper figure for auto exports.

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A/NIO/Economics

CIA Hqs. - Room 7E62

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SUBJECT

Attached Japan Paper for Meeting 28 February 1985

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Mr. Roger Robinson, National Security Council

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